

# Research on the Management Reform of Streaming Entertainment based on Investment Strategy Analysis - Take Netflix as An Example

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**Abstract.** The media reform has caused the change of people's entertainment way, and streaming media has become an important business model and competitive format. Netflix, as a pioneer in the streaming industry, has expanded its business globally and made significant achievements in terms of revenue. Studying the successful business strategy of Netflix and summarizing the revenue decline caused by immature experience is of great benefit to the development of streaming media industry. Based on the analysis of Netflix's business status and its business strategies, this paper attempts to evaluate the current situation of the development of streaming entertainment industry, and make prospects for the future prospects of streaming entertainment industry and the industry oriented by large groups of customers, and put forward development suggestions. Through the analysis of the severe stock price decline in 2022 and the "secondary growth" in 2023, it can be concluded that Netflix needs to take effective measures in terms of content diversity, user retention and brand image to cope with competition from emerging streaming companies and achieve steady growth.

**Keywords:** Netflix, streaming entertainment, investment strategy, company management.

## 1. Introduction

The entertainment industry "is a huge and dynamic field that includes a variety of media and content production" [1]. From radio through linear TV to streaming entertainment, media reform has caused changes in people's entertainment methods, and streaming entertainment, which is "on-demand, personalized, and available on any screen", has become an important business model and competitive format, is even replacing linear TV. And with the present pandemic brought about by coronavirus disease 2019 (COVID-19), social distancing could be a norm, and streaming media consumption could further increase [2].

However, in the context of the escalating "streaming wars" between powerful platforms, Netflix faces competition from HBO, Disney/Hulu and other streaming services [3]. In addition, with the continuous expansion of business territory on a global scale, Netflix needs to "adapt national contexts, culture, and regulatory frameworks as well as to the use of local elements to appeal to global taste" [4]. As a user-dependent industry, although the streaming entertainment industry has a high price-earnings ratio, it has high requirements for sufficient cash flow. Therefore, it is very important to develop users through different strategies to prevent user loss and increase the number of users. Netflix, as "a global streaming entertainment service offering movies, TV series and games", is currently the largest global streaming platform challenging traditional US studios[5]. In addition, it has not only expanded into a global player, but also been heavily investing in original content, developing into a "tech-media hybrid". As an important representative of streaming media service, its research is helpful to analyze the current situation and development prospect of streaming media industry.

There have been numerous studies to investigate the successful investment strategies from the perspective of communication. However, the present studies lack the analysis to the investment decisions based on the company's operating conditions from a financial perspective. The article attempts to explain the impact of different investment strategies on Netflix's financial situation by analyzing the major investment strategies Netflix has adopted in different regions, combined with the company's financial statements, through valuation and investment income analysis, and put forward business strategies suitable for the development of streaming media industry. Currently, the streaming revenue

and membership information of Netflix are divided into four regions for statistics: United States and Canada (UCAN), Europe, Middle East and Africa (EMEA), Latin America (LATAM) and Asia-Pacific (APAC). Based on Netflix's global financial data, combined with Netflix's video theme and content production in different regions, this paper analyzes Netflix's different business strategies in different regions with different user penetration, and gives suggestions on investment and media operation.

## 2. Case Description

Netflix, the currently “largest global streaming platform challenging traditional US studios”, is probably one of the most iconic stocks of the decade in terms of market performance. In 2017, the number of Netflix subscribers exceeded the total number of cable TV subscribers in the United States. In the past five years, Netflix's share price has risen from \$364.71 to \$617.14, with a market capitalization of \$487.3 billion. Netflix has already developed into one of the most prominent streaming providers globally.

Netflix was founded as a DVD rental service based on online ordering and mailing. With the decline of the traditional DVD industry and the breakdown of cooperation between upstream content parties, Netflix gradually turned to the investment and production of original content, developed a new streaming media business from scratch, and developed into the largest company in more than a decade [6]. Netflix's business has not only been extremely successful in the United States, but has also expanded globally, offering the service in hundreds of countries and producing diverse series in different regions to suit the viewing preferences of people in different cultures and all age groups [1].

However, Netflix's growth also faces challenges. The emergence of other video sites such as Disney/Hulu and YouTube have taken a toll on Netflix's business. In the recent development, YouTube has a larger share than Netflix in some regions, such as Brazil and Mexico, and even in the United States [7]. (see Figure 1) How to adopt the right investment strategy, and then maintain the advantageous position, is the problem that Netflix needs to face. Therefore, it is necessary to analyze the right investment decisions Netflix has already taken, make suggestions for the better development of Netflix and streaming media companies.

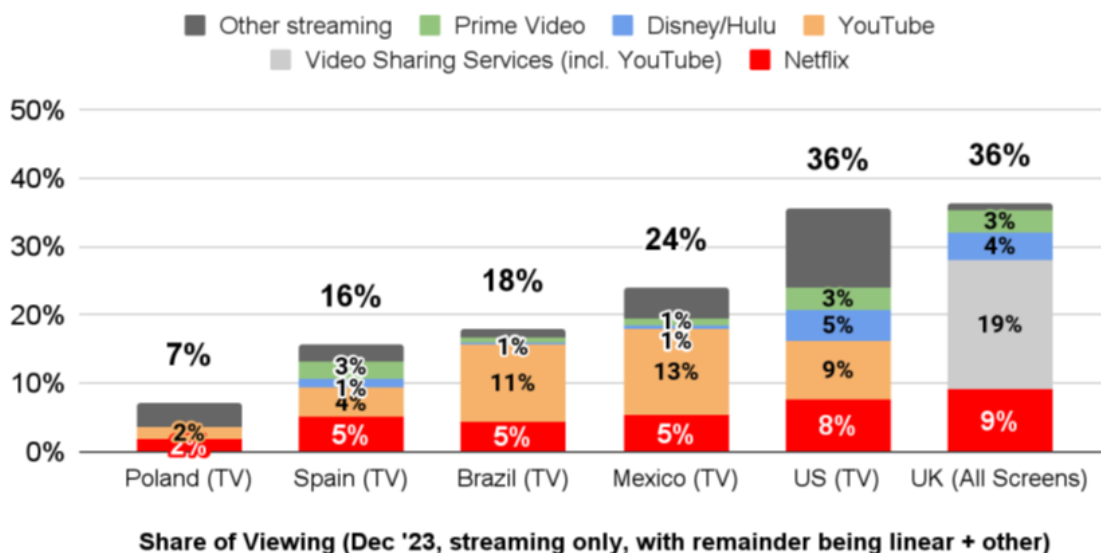


Figure 1. Share of viewing

Picture Credit: Nielsen (Mexico, Poland, US), Kantar (Brazil, Spain), BARB (UK). The UK measures viewing across four screens (TV, smart phone, tablet and laptop), all others are TV only.

### 3. Analysis on the Problems

This is part of Netflix's fourth-quarter 2023 economic report [8] (see Table 1). Overall, Netflix has a higher growth in both EPS and P/E Ratio compared to 2022, and the market is expected to be good. At the same time, after the plunge in 2022, although there are also small fluctuations, the stock price has been showing an upward trend, gradually recover close to the highest point of the stock price. This shows that Netflix is in good overall shape for 2023.

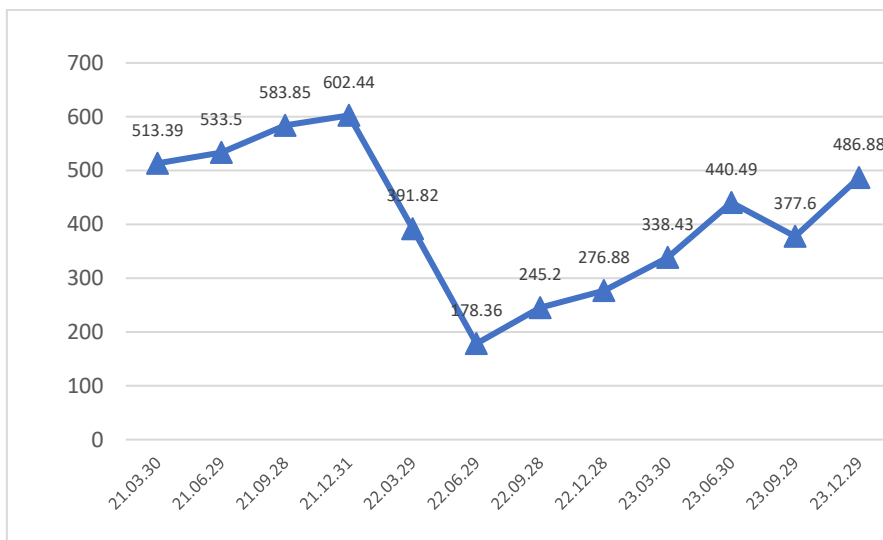
**Table 1.** Part of Netflix's economic indicators (2021-2023)

IN USD THOUSANDS	Marc h 31,	June 30,	Septem ber 30,	Decem ber 31,	Marc h 31,	June 30,	Septem ber 30,	Decem ber 31,	Marc h 31,	June 30,	Septem ber 30,	Decem ber 31,
	2021	2021	2021	2021	2022	2022	2022	2022	2023	2023	2023	2023
Total current assets	10107508	9604276	9415787	8069825	8098015	7840778	8816903	9266473	10482623	11506336	10779474	9918133
Total assets	40123014	40970969	42739857	44584663	45330904	46350935	47562187	48594768	49490345	50817473	49501786	48731992
Gross profit	3,295,000	3,324,000	3,276,000	2,470,000	3,583,000	3,279,000	3,137,000	2,448,000	3,357,878	3,513,831	3,610,880	3525340
Gross profit(annual)			12,365,161				12,447,265				14,007,929	
Revenues	7163282	7341777	7483467	7709318	7867767	7970141	7925589	7852053	8161503	8187301	8541668	8832825
Twelve Months Ended			29697844				31615550				33723297	
Cost of revenues	3868511	4018008	4206589	5239575	4284705	4690755	4788665	5404160	4803625	4673470	4930788	5307485
Twelve Months Ended			17332683				19168285				19715368	
Operating income	1959856	1847630	1755253	631770	1971626	1578283	1533018	549904	1714317	1827183	1916394	1496109
Earnings per share:												
Basic	3.85	3.05	3.27	1.37	3.6	3.24	3.14	0.12	2.93	3.35	3.8	2.15
Diluted	3.75	2.97	3.19	1.33	3.53	3.2	3.1	0.12	2.88	3.29	3.73	2.11
TTM EPS sum(diluted)			11.24				9.95				12.01	
P/E ratio			34.86				34.01				51.06	

Data Source: Netflix. Q4-23-Website-Financials

#### 3.1. Diversification

Netflix's successful investment strategy is multifaceted. The most notable is success in "diversity". Diversity is embodied in two aspects, the first aspect is the diversification of forms. Netflix produces a variety of content including TV series, movies, documentaries and reality shows. In addition to episodes, but also introduces new features through games and interactive entertainment to improve the consumer experience and engagement that other streaming platforms have yet to consider [1]. This will help expand the company's business and better cope with competition from similar streaming companies.



**Figure 2.** Netflix stock price movement chart (2021-2023) (Picture credit: <http://www.nasdaq.com/market-activity/stocks/nflx>)

In early 2022, Netflix's stock price fell sharply, to around \$17. (Figure 2) The stock's all-time high, around \$701, has fallen alarmingly. Increased competition from new streaming companies is one reason for the drop. At present, North American customers have Amazon Prime, Disney+, HBO Max, Paramount+, Peacock, Apple TV+, Hulu and many other options. After Netflix Inc. raised prices again in the U.S. and Canada, the vast majority of these streaming services are cheaper than Netflix, while having established studio support and a strong stock of content. In this case, Netflix has suffered a serious user loss. This is also the inevitable result of the intensification of homogenization competition. Therefore, in addition to considering reasonable service pricing, Netflix should also develop a new product track and carry out differentiated competition, so as to occupy a favorable position in the streaming platform competition.

And that's exactly what Netflix is doing. As early as in 2016, Netflix developed games *Stranger Things: 1984* and *Stranger Things 3: The Game*, borrowed from the previous hit series IP *Stranger Things*, which members can play for free, without ads and in-app purchases. After that, Netflix officially launched mobile games on its app in November 2021, and starting in 2022, In addition to acquiring existing game development teams Next Games, Boss Fight Entertainment, Night School Studio, and Spry Fox, Netflix also set up internal studios in Finland, Southern California, Los Angeles and other places. Set up a studio internally, find a variety of team cooperation products externally, expand the game field with small, medium and large game projects, combine popular film and television resources, and expand the boundaries of film and television dramas with games. Although Netflix's game industry is still immature, this differentiated competition has attracted some game players to become Netflix members, and it has also promoted Netflix to expand its industrial territory and explore new formats in the streaming media industry.

The other point is diversity of content. As a global streaming service, Netflix needs to produce content that is diverse and meets the tastes of people in different regions and cultures. Netflix is also popular because of its wide variety of content that appeals to all age groups and genres [1]. At the same time, the production of non-English series is conducive to expanding the user base, making up for the possible loss of local users in the local region, and stabilizing the company's revenue.

In the 2022 stock price crash, it was the Asian market that ushered in user growth to offset the large number of global user losses. In particular, the markets of Japan, India and the Philippines showed significant growth [9]. This has helped to ease Netflix's stock price decline, but it also shows the advantages of diversifying content and expanding globally.

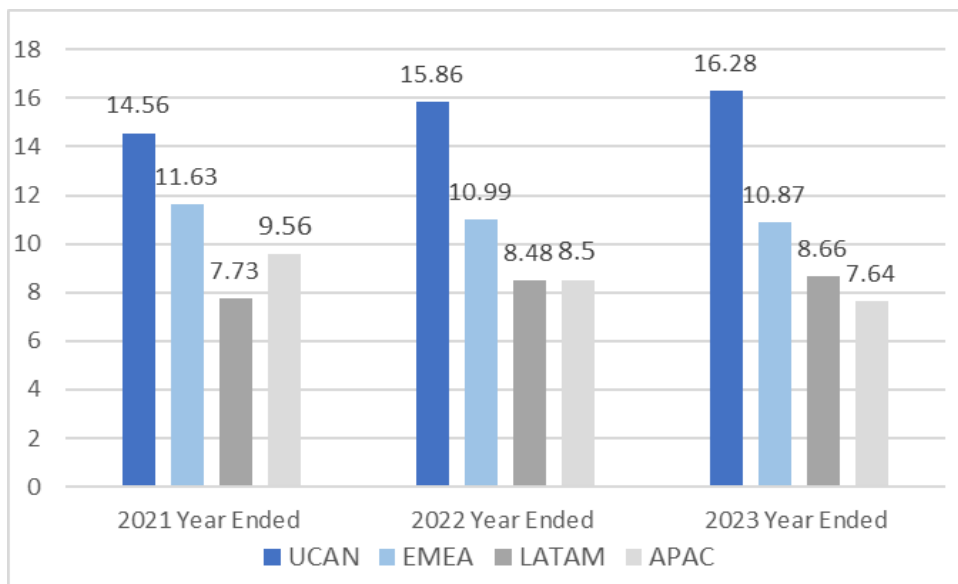
It's worth noting that Netflix's non-English content is very popular. Of the top six most popular shows, three are non-English, including " *Squid Game*", " *All of Us are Dead*" and " *Money Heist*." In particular, the Korean series " *Squid Game*" has achieved success in Korea and even globally. On

September 17, 2021, the series was released worldwide and quickly became Netflix's most popular non-English language series. According to official statistics, it had 111 million viewers in just 17 days, topping the "Today's Viewing Charts" in 94 countries. The success of the squid game lies not only in the excellent visual experience, but also "full of the strong realistic criticism color of the Korean film and television industry." Focusing on ordinary people, revealing the good and evil of human nature. "This is the success of Netflix's local original series in Asia, which has increased Netflix's market value by about \$19.2 billion, and its share price hit a record high of \$646.84 for the period. This alleviates the dual pressure of Netflix's membership growth peaking and the increased competition in its home market

In addition, Netflix has hired programmers and other employees from diverse backgrounds. They try to use inclusive hiring practices to increase the diversity of the company's workforce, better address cultural differences, and focus on employee innovation [10]. Spotting bias in the interview process, sourcing candidates in non-traditional ways, and helping hiring managers identify the perspectives missing on their teams" with the aim to create an environment, policies and practices "that not only invite people in, but when they get in they feel there is a level of investment in them" [11].

### 3.2. Improvement of Subscriber Base

Netflix faces the problem "how to appeal to and diversify its audience so as to retain and increase its subscriber base." As an user-dependent enterprises, Netflix's financial success relies solely on its ability to attract and retain subscribers [10], which is related to whether the company can improve its long-term profits. According to the different degree of market entry in different regions, Netflix focuses on long-term performance and adopts a sustainable investment strategy.



**Figure 3.** Netflix's evolution of annual average revenue per membership per geographic segment (2021-2023) (Picture credit: Netflix's Q4-23-Financials)

Netflix breaks down its streaming division into four broad geographic segments in 2017: UCAN, EMEA, LATAM, and APACF [9]. For examples, in the United States and Canada region (UCAN), paid net membership increased remarkable in 2023, reversing 22 years of decline and increasing significantly. Netflix also has a more mature user market with increasing average revenue per membership there, that means that users are willing to pay more money for videos. But in the Asia-Pacific (APAC) region, average revenue per membership decreased. That is because that Netflix is focusing on expanding its subscriber base and attracting more low-spending customers. The paid net membership and revenue increased, for the expansion of the Asia-Pacific market after the number of users to make preparations. Admittedly, Asia has a lower value per user and acceptance of overseas paid services has not yet opened up, but if more potential users are developed and the number of user

engagement and maintenance subscriptions is increased, the impact on the company's profit growth is still large.

However, Netflix has also taken inappropriate measures that have led to subscriber losses. In the first quarter of 2022, Netflix raised prices again in the United States and Canada. The cheapest non-HD plan will increase by \$1 to \$9.99 a month, the standard plan by \$1.50 to \$15.49, and the premium plan by \$2 to \$19.99. Netflix didn't expect the move to lead to the loss of about 600,000 subscribers [9]. Therefore, in the current situation, improving user stickiness and expanding user scale is still a requirement for Netflix to improve corporate performance. Netflix has since clearly recognized this. In 2023, despite the decrease in average revenue per membership in the Asia Pacific region (APAC), the company performed well due to the substantial increase in subscribers.

### 3.3. Brand Image

Netflix has also used a variety of video production modes such as self-made acquisition to enhance the brand image. Through the production and acquisition of excellent works, further promote the concept of "Netflix products, must be classic", and constantly improve brand reputation and increase user stickiness. At present, Netflix has demonstrated at least four production models [12]. The first category corresponds to homemade content. In the second category, Netflix commissions third-party studios and funds projects from the get-go; The films will be available exclusively on the platform. The third type is a co-production with a major broadcaster/studio whose product will be shown on TV, but whose regional and global streaming will be exclusive to Netflix. The fourth category includes successful movies that have already been released domestically and are available exclusively on Netflix. Whatever the genre, it is labeled as a "Netflix original" on the platform.

In the case of Roma, Netflix announced in April 2018 that it had exclusive distribution rights to Cuarón's most personal film to date. Roma is being billed as a "Netflix original." After that, Roma received 10 Oscar nominations from the Academy of Motion Picture Arts and Sciences (AMPAS) in 2019. This helped Netflix boost "the company's image as a legitimate force in the film industry" (McClintock 2019). As such, Roma is a good example of how Netflix uses different international business strategies to achieve brand awareness [10].

## 4. Suggestions

However, Netflix is also facing difficulties. For example, sharing account problems. Nearly half of users choose to share accounts with members to share costs. This leads directly to the problem of insufficient user growth potential. Netflix could certainly choose to strengthen its audit management, but for these price-sensitive consumers, strengthening the audit is likely to face more widespread user loss, which will have the opposite effect on the company's receivable growth. How to reconcile standardized usage and user retention is a problem that Netflix needs to consider. In response to this problem, Netflix can continue to use technical means such as "single account limit multiple viewing home addresses" to restrict, and can still share accounts, but limit the number of shared addresses through the positioning system. Use the system to gradually pick out the "users" who originally relied on the accounts of relatives and friends to watch the "free ride", and at the same time, it will not lead to a large range of user loss because of the too strict audit mechanism, so as to find potential new users. In addition, a machine learning method should also be designed to identify good and bad video services and optimize the service experience, which is also conducive to attracting users, increasing subscriptions, and improving company revenue [2].

Netflix's stock may also be overvalued. Netflix's high stock price comes from good corporate performance, but its earnings may not be able to maintain high growth rates. Regarding the comparable multiples' analysis, the implied share prices of Netflix are higher for the EV/Revenue. In comparison to the peer group, Netflix's P/E and EV/Revenue multiples are higher. Besides, EV/EBITDA is slightly lower than the median, and EV/EBIT is above the median. Overall, both DCF and comparable multiples' analysis indicate that Netflix is overvalued [13]. Therefore, it is necessary

to continuously introduce excellent works to attract users. In January 2024, Netflix announced a 10-year deal with WWE that would allow Netflix to broadcast popular wrestling shows such as "Raw" in the United States and select overseas market [14]. According to CNBC, the deal is worth \$5 billion. That's good for Netflix - Raw is the top show on U.S. networks [15], attracting 17.5 million viewers a year and one of the top-performing TV shows in the 18-49 advertising demographic. Netflix can grow steadily by strengthening its partnerships with quality TV shows and staying competitive [16].

## 5. Conclusion

By analyzing the stock price changes and financial status of Netflix, a global streaming media company, combined with its business strategies and representative successful cases, this paper proposes feasible measures for the streaming media industry to increase revenue in the future. This paper focuses on the 2022 stock price decline event as an example, and analyzes that Netflix faces difficulties such as peer competition, user contention and insufficient growth potential. At the same time, combined with the effective measures taken by Netflix to achieve substantial growth in 2023, the streaming media industry needs to make efforts in the following three aspects, and put forward specific measures: develop new formats such as games to improve the diversity of content themes, enhance differentiated competitiveness, and better cope with the impact of emerging streaming media enterprises; According to the penetration degree of users in different regions, different strategies are adopted to expand the number of users and increase user payment to improve user retention and stickiness. Increase the discovery of excellent content, combine the acquisition of original content, strengthen cooperation with excellent programs, and enhance the brand image. The innovation of this study is to sum up Netflix's successful experience with the change of its economic status, and put forward development suggestions for the future development of streaming media industry. On this basis, the subsequent research can be combined with the existing measures for a more comprehensive analysis. However, this paper mainly analyzes the operating conditions of Netflix from 2021 to 2023, and lacks large-scale time history analysis. At the same time, some of Netflix's measures may not be reflected in the financial statements in a timely manner, and the method based on the company's stock price and financial statement analysis may have a certain delay, which is put forward here for reference.

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